Unless otherwise specified, financial information included in the Management's Discussion and Analysis has been extracted from financial statements prepared in accordance with IFRS.

A. Operating Results

GENERAL

The Group's financial performance has been affected by factors arising from operating in a planned economy which are beyond its control. However, with China's WTO accession, the impact of these factors has gradually been decreasing.

In 2003, the world economy has gradually recovered from a recession. Although affected by the outbreak of Severe Acute Respiratory Syndrome, China's economy continued to grow rapidly in 2003. Due to the rise in crude oil prices and increase in demand resulting from the general growth of the economy, both the prices and sales volumes of most of the Group's major products increased significantly in 2003 as compared with 2002. In addition, the Group continued to optimize the Group's production and operation system, which resulted in an increase in the production and sales volumes of the Group's major products and a decrease in the production costs of certain products. As a result, the Group's performance in 2003 improved significantly as compared with 2002.

CRITICAL ACCOUNTING POLICIES

The Group's significant accounting policies are set out in Note 1 to the Group's consolidated financial statements. IFRS require the Group to adopt the accounting policies and estimation techniques that are most appropriate in the circumstances for the purpose of giving a true and fair view of the Group's results and financial condition. However, different policies, estimation techniques and assumptions in critical areas could lead to materially different results, particularly in respect of the following:

IMPAIRMENTS

If circumstances indicate that the net book value of an asset or an investment may not be recoverable, the asset may be considered impaired, and an impairment loss may be recognized in accordance with IAS 36 "Impairment of Assets." The Group reviews the carrying amounts of long-lived assets periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. The Group tests these assets for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the estimated recoverable amount. The amount of impairment loss is the difference between the carrying amount of the asset before the reduction and the estimated recoverable amount. The recoverable amount is the greater of the estimated net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for the Group's assets are often not readily available. In determining the value in use, the Group discounts cash flows that the Group expects the asset to generate to their present value. Determining cash flows that the Group expects an asset to generate requires significant judgment relating to the expected level of sales volume, selling prices and the amount of operating costs.

DEPRECIATION

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes form previous estimates.

PROVISION FOR DOUBTFUL DEBTS

The Group maintains an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make the required payments. The Group's provisioning is based on the aging of the trade debtor balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the Group's customers were to deteriorate, actual write-offs might be higher than expected.

SUMMARY

The following table sets forth the Group's sales volumes and net sales, net of sales taxes, for the years indicated:

	For the Years ended 31 December								
	2001			2002			**2003**		
	Net Sales			Net Sales			**Net Sales**		
	Sales Volume ('000 tons)	(Millions of RMB)	% of Total	Sales Volume ('000 tons)	(Millions of RMB)	% of Total	**Sales Volume ('000 tons)**	**(Millions of RMB)**	**% of Total**
Synthetic Fibres	358.4	3,215.8	**16.4**	363.5	3,374.3	**15.5**	**395.4**	**4,092.6**	**14.1**
Resins and Plastics	917.6	5,635.7	**28.7**	1,146.8	6,440.7	**29.6**	**1,389.8**	**8,864.3**	**30.6**
Intermediate Petrochemicals	653.4	2,105.3	**10.8**	786.3	2,555.0	**11.8**	**1,021.8**	**3,851.3**	**13.3**
Petroleum Products	3,958.1	7,735.2	**39.4**	4,100.4	7,991.2	**36.8**	**4,650.4**	**10,329.1**	**35.7**
All others	-	925.8	**4.7**	-	1,361.8	**6.3**	**-**	**1,805.2**	**6.3**
Total	5,887.5	19,617.8	**100.0**	6,396.8	21,723.0	**100.0**	**7,457.4**	**28,942.7**	**100.0**

The following table sets forth a summary statement of income for the years indicated:

	For The Years Ended 31 December					
	2001		2002		**2003**	
	Millions of RMB	% of Net Sales	Millions of RMB	% of Net Sales	**Millions of RMB**	**% of Net Sales**
Net sales	19,617.7	100	21,722.9	100.0	**28,942.7**	**100.0**
Cost of sales	(18,803.0)	(95.8)	(19,853.9)	(91.4)	**(26,396.2)**	**(91.2)**
Gross profit	814.7	4.2	1,869.0	8.6	**2,546.5**	**8.8**
Selling and administrative expenses	(363.2)	(1.9)	(421.2)	(1.9)	**(444.7)**	**(1.5)**
Operating income	451.5	2.3	1,447.8	6.7	**2,101.8**	**7.3**
Other operating income	160.0	0.8	136.6	0.6	**121.1**	**0.4**
Other operating expenses	(217.3)	(1.1)	(154.8)	(0.7)	**(216.5)**	**(0.7)**
Share of (losses)/profits of associates	(20.6)	(0.1)	16.1	0.1	**(24.0)**	**(0.1)**
Net financing costs	(227.8)	(1.2)	(400.7)	(1.9)	**(392.0)**	**(1.4)**
Profit before tax	145.8	0.7	1,045.0	4.8	**1,590.4**	**5.5**
Income tax	(1.2)	(0.0)	(84.5)	(0.4)	**(145.1)**	**(0.5)**
Profit after tax	144.6	0.7	960.5	4.4	**1,445.3**	**5.0**
Minority interests	(28.6)	(0.1)	(44.2)	(0.2)	**(43.6)**	**(0.2)**
Profit attributable to shareholders	116.0	0.6	916.3	4.2	**1,401.7**	**4.8**

RESULTS OF OPERATIONS

FOR THE YEAR ENDED 31 DECEMBER 2003 COMPARED WITH THE YEAR ENDED 31 DECEMBER 2002

Net sales

Net sales increased by 33.2% to RMB28,942.7 million in 2003 from RMB21,723.0 million in 2002. This increase was primarily attributable to the increase in both prices and sales volume of most of the Group's major products resulting from the rise in crude oil price and increase in market demand. The net sales of synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products for 2003 increased by 21.3%, 37.6%, 50.7% and 29.3% respectively as compared with 2002.

i) Synthetic fibres

Net sales of synthetic fibres increased by 21.3% to RMB4,092.6 million in 2003 from RMB3,374.3 million in 2002, due to a 11.5% increase in weighted average price and a 8.8% increase in sales volume. Sales of synthetic fibres as a proportion of total sales decreased from 15.5% in 2002 to 14.1% in 2003 primarily because the increase in sales volume of synthetic fibres was less than the increase in sales volumes of resins and plastics and intermediate petrochemicals. There was a significant increase in the production capacity of resins and plastics and intermediate petrochemicals as a result of the "Phase IV Project" being completed in 2002 and achieving full production capacity in 2003.

ii) Resins and plastics

Net sales of resins and plastics increased by 37.6% to RMB8,864.3 from RMB6,440.7 million in 2002, attributable to an increase of 13.6% in weighted average price and 21.2% in sales volume. Sales of resins and plastics as a proportion of total sales slightly increased from 29.6% in 2002 to 30.6% in 2003 primarily because the increase in sales volume of resins and plastics was larger than the increase in sales volumes of synthetic fibres and petroleum products. There was a significant increase in the production capacity of resins and plastics as a result of the "Phase IV Project" being completed in 2002 and achieving full production capacity in 2003.

iii) Intermediate petrochemicals

Net sales of intermediate petrochemicals increased by 50.7% to RMB3,851.3 million in 2003 from RMB2,555.0 million in 2002, due to an increase of 16.0% in weighted average price and 30.0% in sales volume. Sales of products in this segment as a proportion of total sales increased from 11.8% in 2002 to 13.3% in 2003 primarily because the increase in sales volume in intermediate petrochemicals was larger than the increase in sales volumes of synthetic fibres and petroleum products. There was a significant increase in the production capacity of intermediate petrochemicals as a result of the "Phase IV Project" being completed in 2002 and achieving full production capacity in 2003.

iv) Petroleum products

Net sales of petroleum products increased by 29.3% to RMB10,329.1 million in 2003 from RMB7,991.2 million in 2002, due to an increase of 14.0% in weighted average price and 13.4% in sales volume. Sales of products in this segment as a proportion of total sales decreased slightly from 36.8% in 2002 to 35.7% in 2003 primarily because the increase in sales volume of petroleum products was less than the increase in sales volumes of resins and plastics and intermediate petrochemicals. There was a significant increase in the production capacity of resins and plastics and intermediate petrochemicals as a result of the "Phase IV Project" being completed in 2002 and achieving full production capacity in 2003.

v) Trading and other activities

Revenues from trading and other activities increased by 32.6% from RMB1,361.8 million in 2002 to RMB1,805.3 million in 2003.

Cost of sales

Cost of sales increased by 33.0% from RMB19,853.9 million in 2002 to RMB26,396.2 million in 2003, primarily due to a significant increase in the sales volume of most of the Group's major products. Cost of sales as a proportion of net sales slightly decreased from 91.4% in 2002 to 91.2% in 2003.

i) Crude oil

Processed crude oil volumes increased by 15.9% from 7.43 million tons in 2002 to 8.61 million tons in 2003. The weighted average cost of crude oil per ton increased by 19.6% from RMB1,541 in 2002 to RMB1,843 in 2003. Total crude oil costs increased by 37.8% from RMB11,444.8 million in 2002 to RMB15,764.9 in 2003, accounting for 59.7% of the total costs of sales in 2003.

Due to the shortage of supply in domestic onshore crude oil, the Group has continuously increased the usage of imported crude oil to leverage the advantage of the Group's coastal location. In 2003, the Group processed 6.71 million tons, 0.48 million tons, 0.04 million tons and 1.38 million tons, respectively, of imported crude oil, domestic offshore oil, domestic onshore oil from Daqing oilfield and domestic onshore oil from Shengli oilfield, of which the average processing costs are RMB1,860 per ton, RMB1,793 per ton, RMB1,744 per ton and RMB1,703 per ton, respectively.

ii) Other expenses

Expenses for other ancillary materials increased by 28.3% from RMB3,071.6 million in 2002 to RMB3,939.4 million in 2003. Depreciation increased by 16.7% from RMB1,585.8 million in 2002 to RMB1,850.0 million in 2003. The increase of depreciation was primarily due to an increase in amount of fixed assets resulting from completion of certain capital expenditure projects including, among others, Phase IV Project.

Selling and administrative expenses

Selling and administrative expenses increased by 5.6% from RMB421.2 million in 2002 to RMB444.7 million in 2003 primarily due to an increase in sales volume.

Operating profit

Operating profit increased by 45.2% from RMB1,447.8 million in 2002 to RMB2,101.8 million in 2003 because net sales increased to a larger extent than cost of sales and selling and administrative expenses.

Other operating income

Other operating income decreased to RMB121.1 million in 2003 from RMB136.6 million in 2002.

Other operating expenses

Other operating expenses increased by 39.8% from RMB154.8 million in 2002 to RMB216.4 million in 2003 primarily due to the Company having incurred employee reduction expenses of RMB64.1 million in 2003.

Net financing costs

Net financing costs slightly decreased from RMB400.7 million in 2002 to RMB 392.0 million in 2003 primarily due to lower interest expenses resulting from an increase in the proportion of foreign currency borrowings which generally bear a lower interest rate than Renminbi borrowings. This decrease was effectively offset by an increase in interest expenses resulting from the cessation of capitalization of interest expenses incurred for the financing of Phase IV Projects.

Profit before tax

Profit before tax increased by 52.2% from RMB1,045.0 million in 2002 to RMB1,590.4 million in 2003 primarily because increase in operating profit more than offset decrease in other operating income and increase in other operating expenses.

Income tax

Income tax increased by 71.7% to RMB145.1 million in 2003 from RMB84.5 million in 2002. This increase was primarily due to a substantial increase in profit before tax. The Company continued to pay income tax at a preferential rate of 15% in 2003. This preferential rate was first applied to the Company under approval from Chinese tax authorities effective from 1 January 1993. According to a circular issued by the Ministry of Finance and the State Administration of Taxation, the first nine H-Share listed companies (including the Company) were permitted to pay income tax at a 15% tax rate for years in 1996 and 1997. In 1998, 1999, 2000, 2001, 2002 and 2003, the tax privilege was not revoked by the relevant government authorities. However, the Company cannot be sure whether the Ministry of Finance will maintain the 15% tax rate in 2004. During the year, the Company received a tax refund of RMB 92.2 million (2002: RMB66.4 million) in 2003 in respect of purchases of domestically manufactured equipment for technological improvement which partially offset the increase in income tax.

Profit after tax

Profit after tax increased by 50.5% from RMB960.5 million in 2002 to RMB1,445.3 million in 2003 primarily due to a significant increase in profit before tax.

B. Segment reporting prepared in accordance with PRC Accounting Rules & Regulations

Summary of segmental results:

By segment	Income from principal operations (RMB'000)	Cost of sales (RMB'000)	Gross profit margin (%)	Increase/ decrease of income from principal operations compared to last year (%)	Increase/ decrease of cost of sales compared to last year (%)	Increase/ decrease of gross profit margin compared to last year (%)
Synthetic fibres	4,114,966	3,843,129	6.61	21.15	22.45	-0.99
Resins and plastics	8,907,410	7,720,287	13.33	37.48	39.67	-1.36
Intermediate petrochemicals	3,879,846	2,762,850	28.79	50.63	41.29	4.71
Petroleum products	10,834,580	9,505,466	12.27	27.73	32.96	-3.45
All others	1,830,338	1,410,465	22.94	31.78	45.09	-7.07
Including: connected transactions	10,481,474	9,638,172	8.05	29.76	36.84	-4.75

Price-setting principles of connected transactions	The Board of Directors of the Company believes that the above connected transactions were entered into in the normal course of business and were conducted on normal commercial terms or in accordance with the terms of the relevant agreements. The above transactions were confirmed by the Company's independent non-executive Directors.
Description on the necessity and continuity of connected transactions	Connected transactions mainly comprised purchase of crude oil and sale of petroleum products. The distribution of crude oil, the major production raw material of the Group, and the prices and sale of petroleum products are regulated by the State and executed by Sinopec Crop. As long as the State does not give up control over the purchase of crude oil as well as the sale and prices of petroleum products, such connected transactions will continue to happen.

Analysis of the geographical segments for the principal operations

Region	Income from principal operations RMB'000	Change compared with 2002(%)
Eastern China	26,294,106	32.64
Other regions in China	1,766,997	23.75
Exports	1,506,037	40.55
Total	29,567,140	

During the year, there was no significant change to the geographical segments for the principal operations of the Group as compared to 2002.

Suppliers and customers of the Company	RMB'million		
Total purchases from the top five suppliers	16,036	Percentage of total purchases	64%
Total sales to the top five customers	10,695	Percentage of total sales	36%

C. LIQUIDITY AND CAPITAL RESOURCES

The Group's primary sources of capital are operating cash flow and loans from unaffiliated banks. The Group's primary uses of capital are costs of goods sold, operating expenses and capital expenditures.

Working capital

As at 31 December 2003, the Group's working capital (current assets minus current liabilities) deficit was RMB457.6 million, an increase from a deficit of RMB100.2 million in 2002. This increase in the deficit was attributable to the Group's increased needs to finance working capital as a result of the growth of production. Although the Group needs to pay close attention to the Group's working capital and liquidity position, the Group reviews its position on a regular basis and has always been able to satisfy the Group's short-term obligations through the refinancing of indebtedness and other measures.

Cash flows provided from operating activities

Cash flow provided from operating activities increased by RMB478.7 million to RMB2,277.0 million in 2003 from 1,798.3 million in 2002. This increase in cash flow was primarily attributable to the following factors:

i) Profit before tax net of depreciation was RMB3,440.4 million in 2003 as compared with RMB2,630.8 million in 2002, which resulted in an increase in cash flow by RMB809.6 million.

ii) Increase in inventories led to a decrease in operating cash inflow by RMB120.6 million in 2003 as compared with RMB503.8 million in 2002 due to the increase of crude oil as compared between the end and the beginning of 2003 being less than the respective increase in 2002, which resulted in an increase in cash flow by RMB383.2 million.

iii) Increase in debtors, bills receivable and deposits led to a decrease in operating cash inflow by RMB346.0 million in 2003 as compared with an increase of operating cash inflow of RMB80.8 million in 2002 due to sales of more products in 2003, which resulted in a reduction in cash flow by RMB426.8 million.

iv) Decrease in trade creditors, other creditors and bills payable led to a decrease in operating cash inflow by RMB478.8 million in 2003 as compared with RMB200.3 million in 2002 due to the Group's payment of more payables in 2003, which resulted in a reduction in cash flow by RMB278.5 million.

v) Decrease in balances with parent companies and fellow subsidiaries led to a decrease in operating cash inflow by RMB199.5 million in 2003 as compared with RMB 96.1 million in 2002, which resulted in a reduction in cash flow by RMB103.4 million.

Net cash used in investing activities

Net cash used in investing activities decreased by RMB999.2 million to RMB1,578.6 million in 2003 from RMB2,577.8 million in 2002 primarily due to a decrease of RMB1,119.4 million in capital expenditure.

Cash flows (used in)/provided from financing activities

Cash flow used in financing activities was RMB518.7 in 2003 compared with a RMB988.1 million cash flow provided from financing activities in 2002. This change was primarily attributable to the increase in repayment of bank loans by RMB1,067.4 million and the payment of a dividend amounting to RMB360 million in 2003.

Borrowings

The Group's borrowings as at 31 December 2003 increased by RMB188.4 million to RMB8,781.6 million from RMB8,593.2 million as at 31 December 2002. Short-term borrowings increased by RMB1,572.4 million to RMB5,574.7 million in 2003 from RMB4,002.3 million in 2002 due to the Group's increased demand for working capital as a result of the growth of production. Short-term loans were all at floating rates and denominated in Renminbi and United States Dollar. Long-term borrowings decreased by RMB1,384.1 million to RMB3,206.8 million in 2003 from RMB4,590.9 million in 2002 due to the Group's reduced financing needs for capital expenditure after the completion of Phase IV Project and other major capital expansion projects. Long term borrowings were fixed-rate loans in United States Dollar or Japanese Yen and floating-rate loans denominated in United States Dollar or Renminbi.

The Group managed to maintain the Group's asset-liability ratio at a safe level by consolidating control over both liabilities, including bank borrowings, and financing risks. The Group generally does not experience any seasonality in borrowings. Rather, due to the planned nature of capital expenditures, long-term borrowings can be arranged comfortably in advance of expenditures while short-term borrowings are used to meet operational needs. The terms of the Group's existing bank loans do not restrict the Group's ability to pay dividends on the Group's shares.

Debt-equity ratio

The Group's debt-equity ratio was 17.6% in 2003 compared to 24.7% in 2002. The ratio is computed by long-term borrowings divided by the sum of long-term borrowings and shareholders' equity.

D. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

The Group maintains a range of technology development units, including Petrochemical Research Institute, Fibre Research Institute and Technology Development Company, for research and development with respect to new technology, new products, production processes and equipment, downstream processing of petrochemical products, oil refining, chemical machinery, chemical technology, catalysts and environmental protection. The Group's research and development expenditures were RMB40.8 million in 2001, RMB84.0 million in 2002, and RMB101.2 million in 2003 representing approximately 0.2%, 0.4% and 0.3% of the Group's total sales, respectively, in those years.

The Group is not, in any material aspect, dependent on any patents, licenses, industrial, commercial or financial contracts or new production processes.

E. OFF-BALANCE SHEET ARRANGEMENTS

As of 31 December 2003, the Group's contingent liabilities amounted to RMB129.1 million in respect of guarantees issued to banks in favour of the Group's associated companies and other unlisted investments while such contingent liabilities as of 31 December 2002 was RMB345.3 million. The Group's and the Company's guarantees issued to banks in favour of the Group's and the Company's associated companies, other unlisted investments companies and consolidating subsidiaries are limited to the respective share in equity interest held by the Group and the Company. Please refer to note 29 and note 28 to the financial statements under IFRS for the detailed information of Group's guarantees and capital commitments.

F. CONTRACTUAL OBLIGATIONS

The following table sets forth our obligations to make future payments under contracts effective as of 31 December 2003.

	As of 31 December 2003 Payment due by period				
	Total (RMB'000)	Less than 1 year (RMB'000)	1-3 years (RMB'000)	4-5 years (RMB'000)	After 5 years (RMB'000)
Contractual obligations					
Short-term debt	4,575,588	4,575,588	-	-	-
Long-term debt	4,205,989	999,141	3,057,746	93,102	56,000
Total contractual obligations	8,781,577	5,574,729	3,057,746	93,102	56,000

G. OTHER INFORMATION

Employees

As at 31 December 2003, the number of employees of the Company was approximately 31,008.

The Group's staff costs for the year was RMB1,091 million.

Foreign Exchange Risks

Since the Group imports its major raw materials (crude oil) mainly through Sinopec Corp., and also exports a portion of the petroleum products through Sinopec Corp., a change in exchange rates will indirectly affect the prices of raw materials products which will have a discernible impact on profitability. In addition, as discussed above, since part of the Group's debts are denominated in foreign currencies, a change in the relevant exchange rates will affect the level of financial expense which will also have an impact on the profitability.

Capital Expenditures

In 2003, the Group's capital expenditures amounted to RMB1,284.9 million, representing a decrease of RMB1,119.4 million from RMB2,404.3 million in 2002. The expenditures were for projects including, among others, the high sulphur-content crude oil processing unit and acrylonitrile expansion project.

Project	Amount	Progress
	RMB'000	
High sulphur-content crude oil processing unit	736,000	Completed
Acrylonitrile expansion project	325,000	Completed
Total	1,061,000	

The estimated capital expenditure for 2004 is RMB1,900 million for the renovation of No. 1 atmosphere and vacuum distillation facility, expansion of rated capacity of PTA facility to 400,000 ton, 380,000 ton per year glycol project and other technological renovation projects.

Ethylene Joint Venture

Late in 2001, the Group, BP Chemicals East China Investments Limited ("BP") and Sinopec Corp, established Secco, a Sino-foreign equity joint venture. The Group owns 20%, while BP and Sinopec Corp own 50% and 30% respectively, of the equity interest of Secco. Secco was established to build and operate a 900,000-ton rated capacity ethylene manufacturing facility, to manufacture and market certain petrochemical products and their by-products, to provide related after-sales services and technical consultation with respect to such petrochemical products and by-products, and to engage in development of polymers application. Secco is expected to complete its construction in 2005. Secco's total registered capital is US$901,440,964, of which the Group's will provide the Renminbi equivalent amount of US$180,287,952. As of 31 December 2003, the Group's injected approximately RMB637.7 million of the above sum. All of the Group's contribution will be made before construction is completed in 2005.

The Group plans to fund the capital expenditures from operating cash flows and available bank loans.

Purchase, Sale and Investment

Except as disclosed in this report, during the year 2003, there was no material purchase or sale of the Group's subsidiaries or associated companies or any other material investments.

Pledge of Assets

As of 31 December 2003, the net book value of the Group's pledged fixed assets is RMB414.3 million.

Accounting principles generally accepted in the United States of America ("U.S. GAAP") Reconciliation

The financial statements prepared in accordance with IFRS differ in certain significant respects from U.S. GAAP. Please see section D for supplementary information for North American shareholders. As a result of these differences and the effect after tax, the Group's net profit reported under U.S. GAAP was higher than net profit reported under IFRS by RMB166.7 million in 2003, RMB208.3 million in 2002 and RMB184.1 million in 2001. Shareholders' equity reported under U.S. GAAP was lower than shareholders' equity reported under IFRS by RMB110.2 million as of 31 December 2003 and RMB277.0 million as of 31 December 2002.